'03

"It's **choice** - not chance -

Choice Resources Corp.

CORPORATE PROFILE

Choice Resources Corp. ("Choice" or the "Corporation") is incorporated under the laws of British Columbia and its principal business activities include exploration, development and production of oil and gas properties. The Corporation is listed on TSX-V Exchange under the symbol CZE.

In December 2002, Choice acquired the Pincher Creek Gas Unit. In 2003, the Corporation purchased Brigus Resources Ltd. (a private company with interests in the Viking, Killam and Bow Island areas in Alberta) and subsequently acquired additional interests in the Bow Island area.

Choice has a 100% working interest in the Pincher Creek Gas Unit, subject to a gross overriding royalty of up to 6%. The Pincher Creek Unit produces approximately 3.0 mmcfpd of natural gas (2 mmcfpd sales gas) and 85 bbl/d of condensate (an aggregate of 400 bopd) from 8 wells. The unit consists of 40 sections of land and a compression plant with condensate separation. Sulphur is removed at the Shell Waterton Plant.

The Corporation's working interest in the Viking and Killam areas (east of Edmonton) and the Bow Island area (south west of Medicine Hat) is approximately 85%. The Corporation recently completed a 26 well "shallow gas" drilling program in these areas. All of these wells have been cased and completed. Through the acquisitions and the recent drilling program, the Corporation produced approximately 7.2 mmcfpd (1200 boe/d) from 79 wells in the Viking, Killam and Bow Island areas.

The Corporation's total production, all of which is natural gas and condensate, was approximately 1400 boe/d as of May 27, 2004.

Choice operates over 90% of its production, with an average working interest of approximately 90%.

HIGHLIGHTS

years ended February 29, 2004 and February 28, 2003

($000's, except per unit or where noted)	2004	2003
Financial		
Gross sales revenue	**16,146**	2,068
Net sales revenue	**12,538**	1,440
Cash flow	**3,987**	406
Per share *(basic) (wt'd avg.)*	**0.34**	0.07
Net income	**(1,156)**	188
Per share *(basic)*	**(0.10)**	0.03
Capital expenditures	**33,829**	3,955
Shares outstanding *(thousands)*		
At year end *(basic)*	**22,534**	5,076
At year end *(diluted)*	**32,294**	8,796
Operations		
Production		
Natural gas *(mcfpd)*	**6,649**	2,216**
NGL *(bbl/d)*	**86**	93
Prices		
$/BOE	**36.50**	37.22
Reserves		
Natural gas *(bcf)*		
Proven	**25.9**	13.7*
Proven plus probable	**33.8**	16.3*
NGL *(mbbl)*		
Proven	**800**	444*
Proven plus probable	**966**	529*
Present value *(proven plus probable, 10% before tax, $ million)*	**45.5**	13.7*

* 2003 comparison is from a January 1, 2003 report by Sproule

** production for the 2003 comparison is for 4 months covering the effective date of the Pincher Creek acquisition.

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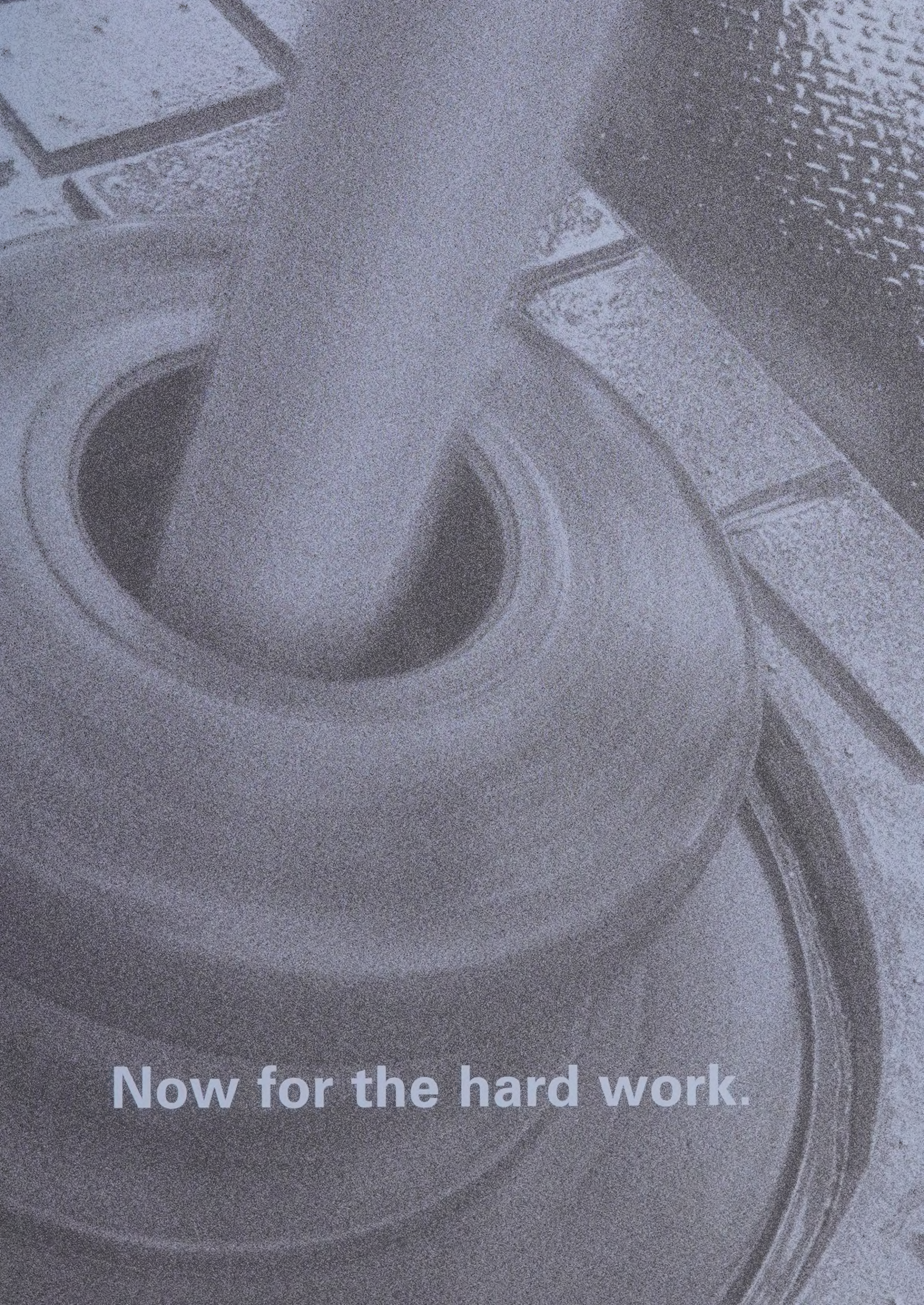

Now for the hard work.

New management

+ New strategy

+ New financing

= Value

Our theme for this report is choices and changes. The Company has grown in two years from essentially nothing to a corporation with over 1400 barrels equivalent per day and assets of over 33 billion cubic feet (bcf).

The future of the Company is dependent on management strengths, critical mass and the ability to finance forward-growth projects. The last year was a time of building a company with critical mass. The year end financials do not reflect a full year of operations for the Brigus or the RGH acquisitions. The previous year was also characterized as a building year and the stock price volatility during the year was reflective and sobering to the Board of Directors.

At year end, the Company had a new management team in place and recapitalized the balance sheet with two equity financings. The Company grew from essentially no assets two years ago and within the better part of a year has established critical mass and cash flow. This management team has significant experience in all aspects of growing a company and combines the best of finance, engineering and geological experience. All senior staff have been involved in the growth of small and large companies, both private and public.

With a new balance sheet, critical mass and a new set of strategies, we look forward to reporting on our progress throughout the up coming year.

Let us take a look at what has happened during the last year:

The Corporation grew on the assets at Pincher Creek – acquired from the Palmer Ranch. This asset provided the base for the new Company. The next acquisition was a private corporation (Brigus Resources Ltd.) adding two core areas in the Bow Island and Viking areas of Alberta. Subsequent to these two acquisitions, interests were consolidated in these areas with other smaller acquisitions.

The Company then undertook a shallow gas drilling program in the fall of 2003 which added some near term production from low risk drilling.

At the end of November, the net debt stood at $29 million combining debt and working capital which was at the high end of the debt to cash flow ratio. Share prices took a downturn and the Company needed to refinance a debenture due at the end of February.

In February 2004, I was approached to set up a new management team, change the Company's path and apply a growth strategy to ultimately increase shareholder value.

Change is good and change will create value. This being said, creating change also requires patience as a series of choices are made and implemented.

The first choice made was to issue equity and refinance the debentures due at the end of February. This was completed in the first week of March subsequent to the year end.

The second choice was to appoint an experienced management team, without which the Company would have difficulty growing. This has been accomplished with the addition of two engineers to review existing assets and hunt for exploitation opportunities. In addition, geological staff has been increased to add a minimum of one new core area, through drilling and exploitation of existing areas. This will be accomplished through significant farm–ins, joint ventures and in-fill drilling. Finally, the addition of a Chief Financial Officer has rounded out our team. His objective is to put in place and add to the financial discipline.

The third choice was to implement a series of drilling and acquisition opportunities with the potential to significantly grow the Corporation with a minimum of financial risk. We have initiated this process and will report on the progress as results become material.

Subsequent to year end, the Company participated in the drilling of two exploration wells with a potential to significantly impact the reserves if successful. The first well where the Company took a 20 percent interest, while not successful, earned three sections of exploration lands. A seismic program will be performed on this area to determine further potential. The second well, where the Company took a 30 percent interest, was very encouraging and was logged and cased. Significant mud losses and weather problems caused us to suspend the well prior to testing. This well will be evaluated as soon as winter weather allows access. Meanwhile the Company earned in four sections of land in an area highly prospective for new hydrocarbons and has an option on eight other contiguous sections.

In other activity, the Company is busy evaluating the potential opportunties that exist in its Pincher Creek area. This field has produced over 0.5 trillion cubic feet (tcf) to date and is significantly underexploited. The Shell Waterton field to the West, where the Company processes its sulphur, has produced over 2.5 tcf and the Look Out Butte field to the South has produced over 0.3 tcf. These statistics are publicly available and outline the magnitude of the potential resource base.

A 3 dimensional seismic program, which uses the latest technology to evaluate the underground structures, is planned for the Pincher Creek area; to be followed by drilling in the late fall. The geology of the area is complicated but the potential is tremendous with a possible resource of over 30 bcf per well and potential deliverability of over 10 million cubic feet per day (mmcf/d). Because of the depth and costs of drilling in this area the Company will be taking a partner on this and other wells on this property.

The Company currently:

- has a good mix of bread and butter drilling opportunities in the Bow Island and Viking areas and has opportunities for large high impact wells in the Pincher Creek area;
- is focused in three core areas and is embarking on a longer term exploration program to add another core area;
- has a completely improved balance sheet; and
- is 100 percent gas with no hedges in place to take advantage of strong current prices.

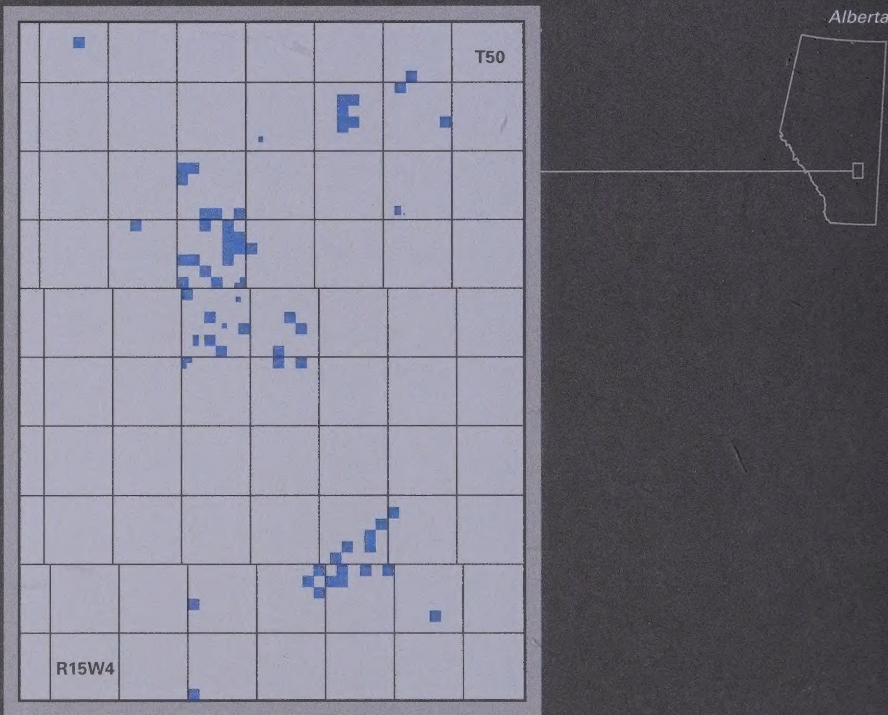
Choice Resources now has a good production base, a good balance sheet and a well qualified management team. These are the essential ingredients for growth and we look forward to reporting on the progress of your Company as we implement our strategies.

(signed) "Gordon D. Harris"

Gord Harris
President

AREA REVIEW – VIKING

Multi zone Potentials
Extensive High Working Interest Lands and Facilities
Choice Operated



The Viking area assets were introduced to Choice through the Brigus deal in May of 2003. The Viking area is a compilation of 6 distinct operating areas all within a 50 mile radius. At purchase, the assets were producing a combined total of 3.5 mmcfd or 580 boed.

These assets lie in multi-zone areas offering a multitude of opportunities. A 21 well drilling program was kicked-off in July running through to September in which all of the 21 wells were cased and completed with 19 being tied in and producing by fiscal year end. These wells added initial flush production of 2.4 mmcfd, which once stabilized at steady decline rates provided 1.2 mmcfd production at year end. These declines are typical of the wells in the area.

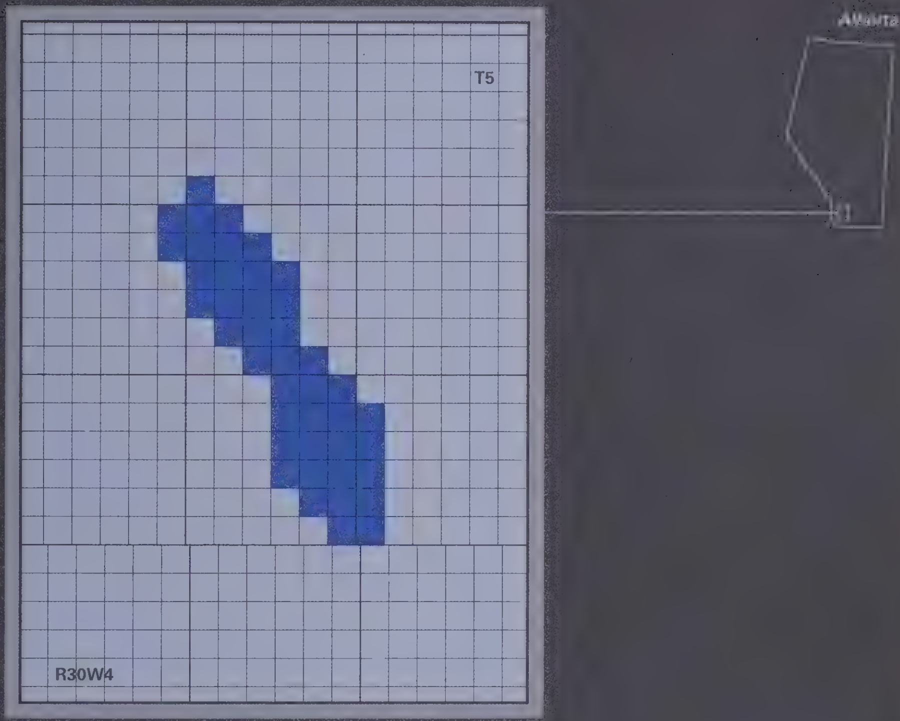
The active drilling program was followed by gathering and process activities. A new 10 well gathering system was built and tied to a central group separator in the Sedgewick area. Field booster compression was also added to increase production from wells bucking relatively high gathering line pressures. At Viking, the gathering system was expanded to tie-in 9 new wells, 2 suspended wells and 12 existing wells and reroute the gas to a new stand alone dehydration and compression plant which the company constructed to deliver directly to the ATCO pipeline system.

The drilling program along with several well optimizations and co-mingling operations have increased the Viking area net sales production at year end to 5.4 mmcfd or 900 boed.

Looking ahead, the Company plans to concentrate and add lands in specific areas. Ongoing area evaluation with seismic data will provide the future drilling and land acquisition targets. Recompleting, co-mingling and optimization programs will be a focus in the new year to increase reserves.

AREA REVIEW – PINCHER CREEK

100% Working Interest
Choice Operated Unit – 41 Sections
Low Decline Production
3D & 2D Seismic Data
High Impact Potential Drill Location



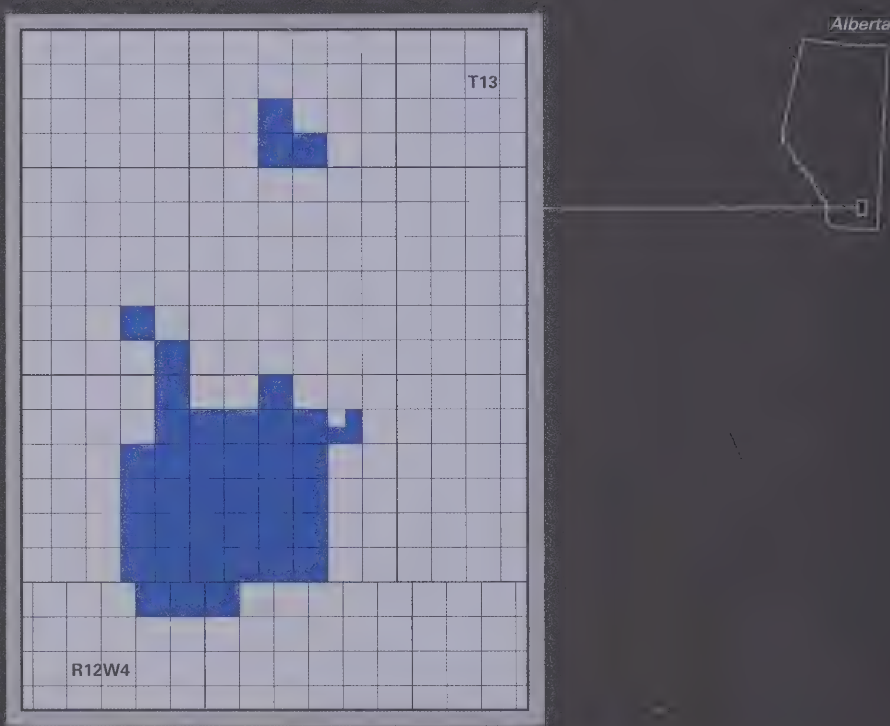
The Company began its fiscal year with the Pincher Creek Unit as its sole asset with production of 1.6 mmcfd sales gas and 90 bpd liquids (together 360 boed). The overhauling of the 4-36 and 6-19 compressors brought back on production 0.3 mmcfd to end the year with sales gas production of 1.9 mmcfd and 80 bpd liquids (together 400 boed).

The Pincher Creek plant turnaround, the first in many years, revealed the vessels and facilities to be in good condition not requiring further inspection for 3-5 years. During the turnaround, a new gas dehydrator was put in operation to meet sales gas requirements and save approximately $50k per month in methanol costs. The Flare system was improved to meet current regulatory requirements.

The Pincher Creek Unit has substantial remaining reserves evidenced by the long term stable production rates. The Unit is comprised of a number of segregated pools, which leads to the opportunity to discover and exploit untapped reserves. We look forward to the planned 3D seismic program to help pinpoint new drill locations. In addition, several reentry candidate wells could see significant increases in production and additional reserves.

AREA REVIEW – BOW ISLAND

Initially Acquired May 2003
100% Working Interest in Lands and Facilities
Choice Operated
Muti Zone Potentials



The Bow Island assets came to Choice as part of the Brigus Resources Ltd. acquisition. At the time of acquisition, these properties were held at an effective 75% working interest. Subsequently, the company acquired the remaining 25% interest in June, followed by the Company acquiring offsetting production and the balance of plant and facilities in September which left Choice with 100% interest in the lands and an additional 11 sections of land and facilities.

Development of these assets saw the drilling and completion of 5 Bow Island wells.

Future plans for this area will see at least 3 Bow Island wells being drilled in mid 2004 with several additional contingent wells. A Sawtooth oil well will be drilled to test its potential over these lands and if successful, a multi well program will be implemented. In addition, a completion operation will test the viability of an upper sand which is present and productive in the area.

OIL AND GAS RESERVES DATA

as of March 1, 2004

Please read in conjunction with the SEDAR filing entitled "Oil & Gas Annual Disclosure Filing" at www.sedar.com or at the Choice Resources website at www.choiceresources.ca

1. Reserves and Future Net Revenue (Forecast Prices and Costs)

Summary of oil and gas reserves.

	Reserves							
	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
Reserves category	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(mbbl)	*(mbbl)*	*(mbbl)*	*(mbbl)*	*(mmcf)*	*(mmcf)*	*(mbbl)*	*(mbbl)*
Proved								
Developed producing	–	–	–	–	24,929	18,713	794.5	519.5
Developed non-producing	–	–	–	–	–	–	–	–
Undeveloped	–	–	–	–	921	784	5.5	3.7
Total proved	**–**	**–**	**–**	**–**	**25,850**	**19,498**	**800.0**	**523.2**
Probable	–	–	–	–	7,950	6,217	165.6	108.5
Total proved plus probable	**–**	**–**	**–**	**–**	**33,800**	**25,714**	**965.6**	**631.7**

Summary of net present values of future net revenue.

	Before Income Taxes Discounted at (%/Year)					After Income Taxes Discounted at (%/Year)				
Reserves category (M$)	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
Proved										
Developed producing	59,815	40,399	32,334	27,906	25,008	46,542	32,368	26,228	22,743	20,414
Developed non-producing	–	–	–	–	–	–	–	–	–	–
Undeveloped	1,878	3,595	3,184	2,644	2,201	1,251	2,324	2,009	1,620	1,303
Total proved	**61,694**	**43,994**	**35,518**	**30,549**	**27,209**	**47,793**	**34,692**	**28,237**	**24,363**	**21,716**
Probable	22,875	13,670	10,010	7,967	6,607	15,213	9,073	6,616	5,239	4,321
Total proved plus probable	**84,569**	**57,664**	**45,528**	**38,517**	**33,816**	**63,006**	**43,765**	**34,853**	**29,602**	**26,037**

Total future net revenue (undiscounted).

Reserves category (M$)	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved reserves	192,445	44,296	82,536	1,439	2,480	61,694	13,901	47,793
Total proved plus probable	252,617	57,081	105,759	2,439	2,769	84,569	21,563	63,006

2. Reserves and Future Net Revenue (Constant Prices and Costs)

Summary of net present values of future net revenue.

	Net Present Values of Future Net Revenue									
	Before Income Taxes Discounted at (%/Year)					After Income Taxes Discounted at (%/Year)				
Reserves category	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
			(M$)					*(M$)*		
Proved										
Developed producing	84,399	54,381	42,254	35,639	31,344	59,337	40,081	31,894	27,248	24,147
Developed non-producing	–	–	–	–	–	–	–	–	–	–
Undeveloped	5,187	5,652	4,663	3,804	3,154	3,403	3,522	2,837	2,262	1,828
Total proved	**89,585**	**60,033**	**46,917**	**39,444**	**34,498**	**62,740**	**43,603**	**34,732**	**29,510**	**25,976**
Probable	28,100	17,393	12,882	10,251	8,470	18,007	11,284	8,378	6,656	5,480
Total proved plus probable	**117,685**	**77,426**	**59,799**	**49,695**	**42,968**	**80,747**	**54,887**	**43,110**	**36,166**	**31,456**

3. Pricing Assumptions Used In Sproule Report (Forecast Prices and Costs)

Summary of pricing and inflation rate assumption.[1]

Year	**WTI Cushing Oklahoma**	**Edmonton Par Price 40° API**	**Cromer Medium 29.3°API**	**Natural Gas AECO Gas Prices**	**Pentanes Plus FOB Field Gate**	**Butanes FOB Field Gate**	**Inflation Rate**	**Exchange Rate**
	(US$/bbl)	*($Cdn/bbl)*	*($Cdn/bbl)*	*($Cdn/ mmbtu)*	*($Cdn/bbl)*	*($Cdn/bbl)*	*(%/year)*	*($US/$Cdn)*
Forecast								
2004	31.64	40.67	35.67	6.01	41.66	33.35	1.5	0.750
2005	28.64	36.71	31.91	5.80	37.59	27.36	1.5	0.750
2006	26.08	33.30	28.90	5.02	34.11	23.58	1.5	0.750
2007	26.14	33.37	29.07	4.91	34.17	23.63	1.5	0.750
2008	26.53	33.87	29.54	4.98	34.69	23.98	1.5	0.750
Thereafter			Various Escalation Rates					

[1]*Provided by Sproule Associates Limited*

Constant Pricing

The constant prices used are as follows:

Natural Gas		
Alberta AECO–C	6.19	$/mcf
Natural Gas By–Products		
Butanes	31.11	$/bbl
Pentanes plus	50.22	$/bbl
Sulphur	33.29	$/bbl

4. Reconciliation of Changes in Reserves and Future Net Revenue (Forecast Prices and Costs)

Reconciliation of corporation net reserves by principal product type.

	Light & Medium Oil			Heavy Oil			Natural Gas		
Factors	**Net Proved**	**Net Probable**	**Net Proved Plus Probable**	**Net Proved**	**Net Probable**	**Net Proved Plus Probable**	**Net Proved**	**Net Probable**	**Net Proved Plus Probable**
	(mbbl)	*(mbbl)*	*(mbbl)*	*(mbbl)*	*(mbbl)*	*(mbbl)*	*(mmcf)*	*(mmcf)*	*(mmcf)*
March 1, 2003[1]	–	–	–	–	–	–	**10,608**	**2,032**	**12,640**
Extensions	–	–	–	–	–	–	1,462	509	1,971
Improved recovery	–	–	–	–	–	–	–	–	–
Technical revisions[2]	–	–	–	–	–	–	2,511	503	3,014
Discoveries	–	–	–	–	–	–	423	616	1,039
Acquisitions	–	–	–	–	–	–	6,442	2,557	8,999
Dispositions	–	–	–	–	–	–	–	–	–
Economic factors	–	–	–	–	–	–	–	–	–
Production	–	–	–	–	–	–	(1,948)	–	(1,948)
March 1, 2004	–	–	–	–	–	–	**19,498**	**6,217**	**25,715**

[1] *Calculated from the report of Sproule Associates Limited, entitled "Evaluation of the P&NG Reserves of Palmer Ranch (1984) Ltd. in Pincher Creek, Alberta for Choice Resources Corp. (As of January 1, 2003)".*

[2] *The technical revisions resulted from recompletion of one well, a change of surface loss from 37% to 44%, and a change of decline analysis from hyperbolic total history to exponential in last 11 years of production. All technical revisions were in the Pincher Creek area.*

5. Other Oil and Gas Information

Properties with no attributed reserves

The following table sets out the Corporation's undeveloped land position effective February 29, 2004:

Undeveloped	**Gross**	**Net**
Total acres	53,187	45,337

Note: Pincher Creek undeveloped acerage of 16,000 acres is included and is part of a unit.

Costs incurred

The following table summarizes the capital expenditures made by the Corporation on oil and natural gas properties for the year ended February 29, 2004.

(M$)	**Property Acquisition Costs**		**Exploration Costs**	**Development Costs**
	Proved Properties	**Unproved Properties**		
	26,205,875	–	–	8,481,643

Exploration and development activities

The following table sets forth the number of exploratory and development wells which the Corporation completed during the financial year ended February 2004:

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Alberta/Canada				
Oil wells	–	–	–	–
Gas wells	–	–	26	19
Service wells	–	–	–	–
Dry holes	–	–	–	–
Total completed wells	–	–	26	19

Production history

The following table sets forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by the Corporation for each quarter of its most recently completed financial year:

Three months ended	May 31 2003	August 31 2003	November 30 2003	February 29 2004
Average daily production before royalties				
Light & medium oil *(bbl/d)*	–	–	–	–
Heavy oil *(bbl/d)*	–	–	–	–
Natural gas *(mcfpd)*	1,756	7,615	8,011	9,258
Natural gas liquids *(bbl/d)*	96	75	70	102
Average net prices received				
Light & medium oil *($/bbl)*	–	–	–	–
Heavy oil *($/bbl)*	–	–	–	–
Natural gas *($/mcf)*	7.95	5.56	5.11	6.68
Natural gas liquids *($/bbl)*	41.01	39.20	35.28	40.27
Royalties				
Light & medium oil *($/bbl)*	–	–	–	–
Heavy oil *($/bbl)*	–	–	–	–
Natural gas *($/mcfe)*	2.34	1.27	1.03	1.40
Natural gas liquids *($/bbl)*	–	–	–	–
Production costs				
Light & medium oil *($/bbl)*	–	–	–	–
Heavy oil *($/bbl)*	–	–	–	–
Natural gas *($/mcfe)*	3.26	1.79	2.24	1.31
Natural gas liquids *($/bbl)*	–	–	–	–
Netback received				
Light & medium oil *($/bbl)*	–	–	–	–
Heavy oil *($/bbl)*	–	–	–	–
Natural gas *($/mcfe)*	2.08	2.69	1.91	3.99
Natural gas liquids *($/bbl)*	–	–	–	–

Note: mcfe = mcf equivalent converted at 6 mcfe for each bbl of associated liquids.

This M,D & A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements enclosed in this Annual Report.

Choice Resources Corp ("Choice" or the "Corporation") for the year ended February 29, 2004 is reporting an extremely successful year in terms of asset growth, increases in production and sales volumes, as well as significant increases in cash flow. Beginning with the first major oil and gas acquisition for the Corporation, Pincher Creek, which was completed in December 2002, the Corporation has completed a number of financial transactions that now provide a critical mass to go forward. Fiscal 2004 is the first full year of revenue and cash flows for the Pincher Creek asset to the Corporation and over the course of the year Choice continued acquiring assets to establish other major core areas for the Company. Brigus Resources Ltd., a corporate acquisition, was completed May 29, 2003 while complementary assets were acquired from Glencoe Resources Ltd., and RBH Enterprises Inc. These acquisitions for the Corporation and the following exploitation provided a platform for Choice to significantly increase revenue and operating cash flows. In order to complete these transactions in a timely fashion, over $8,000,000 in new equity was raised to finance these deals. A relatively high component of debt was required to complete the transactions and undertake the planned exploitation program. The debt assumed by the Corporation peaked near year end and is reflected in the financial statements. However, significant equity was added subsequent to the year end to relieve certain debt obligations and to assist in correcting the working capital deficiency. (See notes to financial statements, subsequent events).

As part of the debt required to complete these transactions a bridge loan in the amount of $10,000,000 was availed as well as additional bank financing. The bridge financing was a temporary measure and the equity placements which occurred subsequent to year end were used to repay the bridge financing. This repayment, along with operating cash flows, reduced the working capital deficiency. Private placements of $7.1 million (net) and $4.1 million respectively were completed in March 2004 and May 2004.

Operations

In fiscal 2004 Choice increased its production and sales volumes of natural gas and natural gas liquids (NGL) substantially. The comparative operations period from last year is from November 1, 2002 (the effective date of the Pincher Creek acquisition) to the Corporations previous year end, February 28, 2003. Total gas production for the year was 2,433 mmcf and 31,423 barrels of liquids compared to 265 mmcf and 11,235 barrels of liquids for the prior year. Average daily gas production volumes for the year were 6,649 mcfpd compared to 2,216 mcfpd in the 2003 stub year (300% increase). The average daily production of NGL for the year was 86 bbl /day compared to 93 bbl/ day in fiscal 2003. Liquids production is essentially the same in the current year as last year per day as nearly all of the liquids produced by the Company are derived from the Pincher Creek field.

The total increase in production volumes are due both to, the Pincher Creek assets producing for the entire year as well as the production attributed to the Brigus acquisition (which closed on May 29th, 2003) and the production from the RBH and Glencoe acquisitions in the Bow Island area, which closed on June 30, 2003 and October 25, 2003 respectively.

Essentially all revenues are derived from natural gas and NGL sales (including sulphur as a by-product in Pincher Creek) both in fiscal 2004 and the 2003 stub period.

In late February 2004 the Corporation appointed a new management team and will change its head office to Calgary from Vancouver in the current fiscal year. This will centralize the operations of the Company and allow greater efficiencies in terms of proximity to operations and administrative functions that were not as readily available in Vancouver.

Financial

Field income from operations (before general and administrative expenses, interest, depletion and depreciation and income taxes) from natural gas and NGL after royalties and production expense increased by 788% to $7,498,965 in 2004 from $951,131 in fiscal 2003.

This increase was a result of a 796% increase in sales volumes, again reflecting a full year of Pincher Creek natural gas production and the impact of the Brigus and related acquisitions.

Field operating income ($)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Gross natural gas and liquids revenue	1,705,598	4,308,664	4,017,820	6,113,756	16,145,838
Royalties	519,479	950,737	801,125	1,336,358	3,607,698
Production expenses	723,915	1,340,253	1,737,397	1,237,610	5,039,175
Revenue/BOE	46.02	34.45	31.13	40.46	36.50
Royalty/BOE	14.02	7.60	6.21	8.84	8.16
Operating costs/BOE	19.53	10.72	13.46	8.19	11.39

Natural gas and related products revenue increased to $16,145,838 from $2,068,406 largely due to the higher natural gas volumes and the continued exceptional commodity prices. Natural gas prices per mcf for the year were $6.00 per mcf while NGL prices averaged $39.24 per barrel.

Prices for natural gas and NGL remained strong as revenue per BOE for the year was $36.50 compared to $37.22/BOE last year.

The higher revenue Choice enjoyed consequently increased the total royalty expenses for the Corporation. Total royalties in 2004 were $3,607,698 compared to $627,942. However total royalties as a percentage of revenue decreased to 22.3% of gross revenue compared to 30.4% for last year. This decrease in royalties as a percentage of gross revenue reflects a more favorable royalty regime for the aggregate mix of assets with a broader asset base.

The average operating cost per barrel equivalent was $11.39 compared to $8.80 in fiscal 2003. These operations costs decreased over the year on a quarter by quarter basis due to operating efficiencies realized by the increased asset base and as outlined in the above table. The fourth quarter operating costs per BOE were $8.19.

General and administration

Total general and administrative expenses (G&A) were $1,565,257 in fiscal 2004 up from $487,245 reflecting the first full year of administration of the Pincher Creek assets as well as the necessity of managing the increased size of the Corporation. However on a BOE basis, G&A declined to $3.54 per BOE from $8.76 per BOE in 2003. This decrease on a per barrel equivalent basis reflects the economies realized as the Company's production increased.

Interest costs

Bank debt increased dramatically with the Brigus and associated acquisitions from $1,584,074 in February 29, 2003 to $15,950,000 at February 29, 2004 and consequently interest expenses rose to reflect this. As well the Corporations utilizing a bridge loan facility in the amount of $10,000,000 incurred higher interim interest costs associated with this form of financing. These borrowings were undertaken to fund the acquisitions and to further fund the substantial 26 well development drilling program undertaken by Choice. The bridge loan was due to be retired on November 30, 2003 but additional time was required to raise replacement equity and so the repayment was extended until early March 2004. Certain non-cash interest costs were incurred as a consequence of this need to extend the repayment of the bridge facility. The non-cash interest cost related to initially placing the loan and eventually retiring it was $2,125,815 paid in the form of common shares but expensed as an interest expense. Other cash interest amounts paid to Quest for the debenture were $910,685 for the year.

Depletion, depreciation, & accretion

Depletion and depreciation expense of the Corporation's oil and gas assets are calculated using the ratio of produced reserves during the year (for each quarter) divided by the adjusted proven reserves from the beginning of each quarter.

Costs subject to depletion include historic costs incurred plus future development expenditures to develop proved reserves, less previously recorded depletion and depreciation net of the future salvage value of production equipment and facilities.

The Corporation adopted the CICA guidelines regarding future asset retirement obligations earlier than what was required. This new accounting procedure replaces the site restoration provision.

Under the new guideline the discounted adjusted future obligation is set up as a long term liability with the offset being charged to capital assets and depleted as part of the full cost pool. Accretion expenses are recorded as the maturing properties are adjusted to the actual undiscounted costs and, over time, approach their actual estimated abandonment dates. In the current year the accretion expense booked was $82,600.

Total depletion, depreciation and accretion expense for the year was $3,298,976 compared to $191,279.

Income taxes

Choice has over $23,500,000 in income tax pools available to it at year end. The Corporation has renounced over $3,500,000 of exploration expenditures to certain investors who participated in the Corporations flow through share offering in the current year. This must be spent on exploration eligible projects before the end of December 2004.

The major components of the tax pools are as follows at February 29, 2004:

Tangible capital	$	4,300,000
Canadian oil and gas property expense		9,900,000
Canadian exploration expense		1,900,000
Canadian development expense		6,200,000
Non-capital losses		1,300,000

Cash flows from operations and net earnings (loss)

Cash flow from operations (defined as the operational cash flow computed by subtracting general and administrative expenses, stock based compensation expenses, interest expenses and cash income tax expenses from gross revenues, net of royalties and production expenses) increased to $3,986,653 from $405,698 in fiscal 2003 (an increase of 988%). This dramatically reflects the increase in production and operations during the year from the corporate activity and capital programs of Choice over the past year. The increase in cash flow resulted from the Corporation's larger production base combined with continuing strong commodity prices.

The Corporation incurred a net loss for the year of $1,156,205 compared to net income of $188,484 in the previous year. The loss is largely due to the increased interest costs associated with the utilization of and the refinancing of the bridge loan. Of this, $2,125,815 in interest costs were taken as common shares of the Corporation and did not involve the use of Choice's cash resources to retire the interest component of this debt obligation.

Liquidity and capital resources

The Corporation has undertaken an aggressive acquisition program which commenced in December 2002 with the asset purchase at Pincher Creek, following in May 2003 with the Brigus and subsequent related acquisitions. These acquisitions were completed in a leveraged fashion initially utilizing both bank and subordinated debt. The equity components to finance these acquisitions and the planned further development of the properties occurred subsequently with the two private placements that were done after the year end raising over $11,000,000. These proceeds were used to repay the loan payable to Quest as well as to improve the working capital deficiency.

Management feels that operational cash flow should be sufficient in the following year to fund the planned capital program including the funds required to fulfill the exploration commitments under the flow through share financings undertaken in 2003 and the requirements to spend exploration funds for the May 2004 renouncements associated with that financing.

The Corporation is obligated under a long term capital lease for a compressor at one of its facilities. Choice has an obligation to purchase this compressor when the lease ends in October 2006 for a one-time payment of $391,509.

At February 29, 2004 the Corporation's banking facility with a major Canadian chartered bank provided for a credit facility of $23,000,000 of which $15,950,000 was drawn. The credit facility reduces at $550,000 per month commencing February 29, 2004. The Corporation also has an acquisition development line available for up to $5,000,000 but has not availed this credit facility to date.

Capitalization

As mentioned the capitalization of the Corporation had an initial weighting favoring debt. The Corporation spent to year end over $33,000,000 on new capital projects including the acquisitions mentioned. In order to complete these deals debt was the most efficient interim financing vehicle available. However, over the course of the year and subsequent to year end equity issues balanced the financial structure of the Corporation and the debt to operating cash flow ratio is significantly reduced and in line with industry statistics.

Business risks

Oil and gas corporations are all exposed to certain inherent risks such as those relating to the exploration of and development of the corporations reserves. As well there are inherent commodity and pricing risks. Choice attempts to mitigate these risks by:

- Deriving production from several diverse areas;
- Operating virtually all of the Corporations' properties in order to control costs and the timing of capital expenditures;
- Utilizing new technology to maximize production; extend production life of the reserves and reduce operating and capital cost;
- Drilling wells in areas with multiple zone deliverability potential; and
- Employing highly trained and skilled staff to properly exploit the asset base and properly position the Corporation for growth.

Outlook

In late February 2004 Mr. Gord Harris was appointed President and Chief Executive Officer. He very quickly assembled a team of seasoned oil and gas professionals. The first task was to reduce the financial leverage of the Company which has been largely completed subsequent to year end. The Corporation is now refocusing on maximizing its reserve base particularly in the Pincher Creek area. A 3-D seismic program is currently underway to identify further potential in the area and drilling opportunities will be identified. This will, combined with the addition of an exploration team, result in high impact targets developing over the course of the next fiscal year. The Corporation will also pursue further corporate and asset acquisitions (and dispositions when appropriate) to further grow its financial resources.

AUDITORS' REPORT

To the Shareholders of Choice Resources Corp. :

We have audited the consolidated balance sheet of Choice Resources Corp. as at February 29, 2004 and the consolidated statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mistatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at February 28, 2003 and for the year then ended, prior to the change in accounting policies as described in note 3, were audited by another auditor who expressed an opinion without reservation on those statements in his report dated June 3, 2003. We have audited the change in accounting policies for the 2003 consolidated financial statements and in our opinion, such retroactive adjustments, in all material respects, are appropriate and have been properly adjusted.

(signed) "Collins Barrow Calgary LLP"

CHARTERED ACCOUNTANTS

Calgary, Alberta

June 15, 2004

CONSOLIDATED BALANCE SHEETS

as at February 29, 2004 and February 28, 2003

	2004	2003
		(restated - note 3)
ASSETS		
Current assets		
Cash	$ 848,860	$ 55,887
Accounts receivable and prepaid expenses	2,870,408	914,169
	3,719,268	970,056
Property, plant and equipment *(note 5)*	39,531,723	4,681,649
Goodwill *(note 4)*	5,030,905	–
	$ 48,281,896	$ 5,651,705
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,582,943	$ 1,020,292
Obligation under capital lease *(note 6)*	93,768	–
Bank debt *(note 7)*	15,950,000	1,584,074
Loan payable *(note 8)*	10,000,000	–
	30,626,711	2,604,366
Obligation under capital lease *(note 6)*	565,322	–
Asset retirement obligations *(note 9)*	2,444,300	918,000
Future income taxes *(note 10)*	5,471,000	–
	39,107,333	3,522,366
SHAREHOLDERS' EQUITY		
Capital stock *(note 11)*	18,799,467	8,975,038
Share commitments	–	116,000
Special warrants	–	2,000,000
Contributed surplus	518,935	25,935
Deficit	(10,143,839)	(8,987,634)
	9,174,563	2,129,339
	$ 48,281,896	$ 5,651,705

Commitments (note 15), subsequent events (note 18)

See notes to consolidated financial statements

Approved by the Board,

(signed) "Gordon D. Harris" *(signed) "Chris Cooper"*

Director *Director*

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

years ended February 29, 2004 and February 28, 2003

	2004	2003
		(restated - note 3)
Revenue		
Oil and natural gas sales	$ 16,145,838	$ 2,068,406
Royalties	(3,607,698)	(627,942)
	12,538,140	1,440,464
Expenses		
Production	5,039,175	489,153
General and administrative	1,565,257	487,245
Interest on obligation under capital lease, bank loan and loan payable *(note 8)*	4,054,291	58,368
Stock-based compensation	303,000	25,935
Depletion, depreciation and accretion	3,298,976	191,279
	14,260,699	1,251,980
Earnings (loss) before income taxes	(1,722,559)	188,484
Income taxes (recovery) *(note 10)*		
Current	18,579	–
Future	(584,933)	–
	(566,354)	–
Net earnings (loss)	(1,156,205)	188,484
Deficit, beginning of year	(8,987,634)	(9,176,118)
Deficit, end of year	$ (10,143,839)	$ (8,987,634)
Net earnings (loss) per share *(note 13)*		
Basic	$ (0.10)	$ 0.03
Diluted	$ (0.10)	$ 0.03

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

years ended February 29, 2004 and February 28, 2003

	2004	2003
		(restated - note 3)
Cash provided by (used for):		
Operating activities		
Net earnings (loss)	$ (1,156,205)	$ 188,484
Items not affecting cash		
Depletion, depreciation and accretion	3,298,976	191,279
Stock-based compensation expense	303,000	25,935
Interest on loan payable *(note 8)*	2,125,815	–
Future income taxes (recovery)	(584,933)	–
	3,986,653	405,698
Changes in non-cash working capital *(note 14)*	867,995	78,210
	4,854,648	483,908
Financing activities		
Due (from) to related parties	–	(99,891)
Repayment of obligation under capital lease	(210,929)	–
Increase in bank loan	13,490,097	1,584,074
Proceeds from loan payable	10,000,000	–
Proceeds on issuance of common shares, net of issuance costs	1,034,140	–
Proceeds on issuance of special warrants, net of issuance costs	5,453,963	1,925,725
Share commitments	–	116,000
	29,767,271	3,525,908
Investing activities		
Property, plant and equipment expenditures	(12,015,731)	(3,954,919)
Acquisition of Brigus, net of cash acquired *(note 4)*	(21,813,215)	–
	(33,828,946)	(3,954,919)
Increase in cash	792,973	54,897
Cash and cash equivalents, beginning of year	55,887	990
Cash and cash equivalents, end of year	$ 848,860	$ 55,887

See notes to consolidated financial statements

1. *Nature of operations*

Choice Resources Corp. (the "Company") was incorporated under the laws of British Columbia and its principal business activities include the exploration and development of petroleum and natural gas (P&NG) properties in Western Canada.

2. *Significant accounting policies*

(a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the Company, Brigus Resources Ltd. and its wholly-owned subsidiaries and partnership.

(b) Property, plant and equipment

(i) Petroleum and natural gas properties

The Company follows the full cost method of accounting for P&NG properties, whereby all costs associated with the exploration for, and the development of, P&NG reserves are capitalized in cost centres by country. Costs capitalized include lease acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Proceeds from disposition of P&NG properties are accounted for as a reduction of capitalized costs. Gains or losses are not recognized unless such disposition would alter the rate of depletion and depreciation by 20% or more.

(ii) Depletion and depreciation

Costs capitalized are depleted and depreciated using the unit-of-production method based on production volumes, before royalties, in relation to estimated proved oil and natural gas reserves as determined by independent engineers. In determining costs subject to depletion, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of undeveloped properties is excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties, or impairment has occurred. For purposes of the calculation, production and reserves of natural gas volumes are converted to equivalent barrels of oil based on their relative energy content where six thousand cubic feet of natural gas equals one barrel of oil or liquids.

(iii) Asset retirement obligations

Asset retirement obligations include the abandonment of oil and natural gas wells, dismantling and removing tangible equipment such as oil batteries and natural gas facilities, and returning the land to its original condition. The Company recognizes an asset retirement obligation ("ARO") in the period in which it is identified and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding amount capitalized to oil and natural gas properties. The amount capitalized is charged to earnings through the depletion and depreciation of P&NG properties. The ARO liability is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the ARO. Actual costs incurred to settle an ARO reduce the long-term liability.

(iv) Ceiling test

Under the full cost method of accounting, a limit is placed on the carrying amount of P&NG properties. A "ceiling test" is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of P&NG properties, less the cost amount of undeveloped properties not subject to depletion (the "adjusted carrying amount") exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company's proved and probable reserves. The future cash flows are discounted at the Company's risk-free interest rate, using forecasted prices and costs.

Any impairment recognized is recorded as additional depletion and depreciation expense.

For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as interest, general and administrative expenses and income taxes.

(v) Other

Other assets are depreciated using the declining balance method at annual rates of 20% to 30% per annum.

(c) Goodwill

The Company has recorded goodwill on acquisitions, determined as the excess of the purchase price over the fair value of identifiable assets and liabilities and the computed amount of future income taxes. In accordance with the recent issuance of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3062, "Goodwill and Other Intangible Assets", goodwill is no longer amortized but assessed annually for impairment. If the fair value of the Company's assets is less than its carrying value, a goodwill impairment loss is recognized.

(d) Joint venture accounting

Many of the exploration and production activities of the Company are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(e) Revenue recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(f) Risk management

The Company may enter into forward contracts to hedge its exposure to the risks associated with fluctuating oil and natural gas prices. The purpose of the contracts are to lock in the price for a portion of the Company's production. Gains and losses associated with risk management activities will be recorded as adjustments to the production revenue at the time the related production is sold.

(g) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(h) Flow-through shares and warrants

The Company, from time to time, issues flow-through shares and warrants to finance a portion of its P&NG exploration activities. The exploration and development expenditures funded by flow-through shares are renounced to investors in accordance with tax legislation. The estimated value of the tax pools foregone is reflected as a reduction in capital stock with a corresponding increase in the future income tax liability, when the qualifying expenditures are renounced.

(i) Stock-based compensation

The Company has a stock option plan as described in note 12.

The Company accounts for all stock-based compensation arrangements using the "fair value method". Under this method, the fair value of options and warrants granted are estimated at the date of grant using the Black-Scholes option pricing model. Compensation expense is recorded over the vesting period as general and administrative expense with a corresponding increase in contributed surplus. The contributed surplus balance is reduced as the options and warrants are exercised and the amount initially recorded is credited to capital stock.

Consideration received by the Company on the exercise of stock options and warrants is recorded as capital stock.

The Company has not incorporated an estimated forfeiture rate for stock options or warrants that will not vest, but accounts for actual forfeitures as they occur.

(j) Per share amounts

Basic net earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year. The Company applies the treasury stock method for the calculation of diluted net earnings (loss) per share whereby the effect of in-the-money instruments such as stock options and warrants affect the calculation. The treasury stock method assumes that the proceeds from the exercise of in-the-money stock options and warrants are used to repurchase common shares of the Company at the weighted average market price during the year.

(k) Measurement uncertainty

The amounts recorded for depletion and depreciation of P&NG properties and lease and well equipment and facilities, the provision for asset retirement obligations and the ceiling test calculation are based on estimates of proved and probable reserves, production rates, P&NG prices, future costs and other relevant assumptions.

The amounts recorded relating to fair values of stock options and warrants issued are based on estimates of future volatility of the Company's share price, expected lives of the options and warrants, expected dividends to be paid by the Company and other relevant assumptions.

The process of assessing goodwill for impairment necessarily requires the Company to determine the fair value of its assets and liabilities. Such a process involves considerable judgment. Since goodwill results from the culmination of a process that is inherently imprecise the determination of goodwill is also imprecise.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

3. Changes in accounting policies

(a) Full cost accounting

In 2004, the Company adopted the CICA Accounting Guideline AcG-16 "Oil and Gas Accounting - Full Cost" which replaces AcG-5 "Full Cost Accounting in the Oil and Gas Industry". The new guideline modifies the ceiling test calculation and outlines additional disclosure requirements as provided in note 5.

The components of the new ceiling test calculation include: undiscounted estimated future cash flows based on proved reserves and forecast prices and costs; discounted estimated future cash flows based on proved plus probable reserves and forecast prices and costs; and no reference to corporate costs such as general and administrative expenses, financing charges and taxes.

The components of the previous ceiling test calculation were: undiscounted estimated future cash flows based on proved reserves and year-end prices and costs; and an estimate of future corporate costs such as general and administrative expenses, interest and income taxes.

There was no impact on the Company's consolidated financial statements as a result of applying the new policy.

(b) Asset retirement obligations

In 2004, the Company adopted the new CICA Handbook Section 3110, "Asset Retirement Obligations". The change in the accounting policy has been applied retroactively with restatement of comparative amounts presented for prior periods. The new standard requires recognition in the consolidated financial statements of the liability associated with retiring tangible long-lived assets such as oil and gas wells and related equipment. The asset retirement obligation is recognized in the period it is incurred and when a reasonable estimate of the fair value can be made.

Prior to the new standard, the Company accumulated a provision for future site restoration costs on the balance sheet that was charged to earnings on a unit-of-production method based on proved reserves. The accumulated liability on the balance sheet was reduced for actual expenditures incurred.

As a result of adopting the new standard, February 29, 2004 liabilities increased by $1,168,000, property, plant and equipment increased by $1,284,000 and net loss for the year then ended decreased by $218,100. Applying the new standard retroactively resulted in a decrease in 2003 net earnings of $102,100, an increase in liabilities of $918,000 and an increase in property, plant and equipment of $815,900 as at February 28, 2003. Opening 2004 retained earnings decreased by $102,100 to account for the cumulative effect of the retroactive restatement for all prior years.

(c) Stock-based compensation

In 2004, the Company elected to adopt amendments to CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", whereby stock options and warrants granted to employees, officers, directors and consultants are accounted for using the fair value method. Under this method, stock-based compensation expense is recognized when an option or warrant is granted, based on the fair value of the option or warrant on the date of grant. Prior to the adoption of the new standard, the Company accounted for the grant of stock options and warrants to employees and directors using the intrinsic value method. Under this method, no compensation expense is recorded for stock options granted at prevailing market prices.

The new standard has been applied retroactively to options granted after February 28, 2002, and comparative figures have been restated.

For the year ended February 29, 2004, the adoption of the amended accounting standard resulted in an increase in net loss and an increase in contributed surplus of $247,600. Applying the new standard retroactively resulted in a decrease in 2003 net earnings of $15,390 and an increase in contributed surplus of $15,390.

4. Acquisition of Brigus Resources Ltd. ("Brigus")

During the year, the Company acquired all of the outstanding shares of Brigus, a company involved in the production of P&NG. The cost of the purchase included cash consideration of $21,906,750 plus finders fee of 250,000 common shares valued at $250,000.

Earnings of Brigus have been included in the statement of operations from May 29, 2003. The transaction has been accounted for using the purchase method. The fair value of net assets acquired and consideration paid were as follows:

Net assets acquired		
Cash	$	93,535
Accounts receivable and prepaid expenses		1,627,749
Property, plant and equipment		24,674,000
		26,395,284
Less liabilities assumed		
Accounts payable		(2,366,166)
Bank loan		(875,829)
Asset retirement obligations		(937,000)
Future income taxes		(5,090,444)
		(9,269,439)
		17,125,845
Goodwill		5,030,905
	$	22,156,750
Consideration given		
Cash	$	21,906,750
250,000 common shares		250,000
	$	22,156,750
Cash paid - net of cash acquired	$	21,813,215

5. Property, plant and equipment

	2004			2003 (restated - note 3)		
$'s	Cost	Accumulated Depletion & Depreciation	Net Book Value	Cost	Accumulated Depletion & Depreciation	Net Book Value
Petroleum and natural gas properties	**42,673,918**	**3,284,571**	**39,389,347**	4,691,267	99,286	4,591,981
Other	**153,991**	**11,615**	**142,376**	99,061	9,393	89,668
	42,827,909	**3,296,186**	**39,531,723**	4,790,328	108,679	4,681,649

Included in P&NG properties is equipment under capital lease with a cost of $870,019 (2003 - $NIL) and accumulated amortization of $66,000 (2003 - $NIL).

Costs of undeveloped land amounting to $777,000 (2003 - $10,000) have been excluded from the depletion and depreciation calculation.The benchmark natural gas selling prices used in the February 29, 2004 ceiling test calculation are as follows:

	Natural Gas	
	Alberta AECO-C Spot	Company Average
	(Cdn$/mmbtu)	*(Cdn$/mcf)*
2005	5.80	5.78
2006	5.02	5.00
2007	4.91	4.93
2008	4.98	5.03
2009	5.05	5.15

The prices increase at a rate of 1.5 percent per year after 2009. Adjustments were made to the benchmark prices to reflect varied delivery points and quality differentials in the products delivered.

6. *Obligation under capital lease*

$'s	2004	2003
Obligation related to leased equipment, repay-able in monthly installments of $11,908, plus a final installment of $391,509, including interest at an implicit rate of 8% per annum, due October 24, 2006, and secured by the leased equipment	**659,090**	–
Less: Current portion	**93,768**	–
	565,322	–

Annual future payments required are as follows:

$'s	
2005	142,896
2006	142,896
2007	486,773
	772,565
Amount representing interest	(113,475)
	659,090

7. *Bank loan*

$'s	2004	2003
Revolving demand loan	**14,950,000**	1,525,000
Non-revolving development demand loan	**1,000,000**	–
Term loan	**–**	59,074
	15,950,000	1,584,074

At February 29, 2004, the Company had a revolving demand loan to a maximum of $23,000,000. Interest is payable monthly at a Canadian chartered bank's prime rate plus 0.5% per annum. The loan maximum reduces by $550,000 per month, commencing February 29, 2004.

At February 29, 2004, the Company had a non-revolving acquisition/development demand loan to a maximum of $5,000,000. Interest is payable monthly at a Canadian chartered bank's prime rate plus 1.0% per annum. The loan may be subject to principal repayments as determined by the lender. At February 29, 2004, the loan was subject to interest payments only.

The loans are secured by a general security agreement and fixed and floating charges covering all of the Company's assets. The Company must comply with certain reporting requirements and financial covenants.

At February 28, 2003, the Company had a term loan bearing interest at 8.9% payable in monthly installments of $1,122, due June 2004, secured by specific equipment, and a term loan bearing interest at 0%, payable in monthly installments of $1,264, due January 2005, secured by specific equipment. Both term loans were repaid during the year ended February 29, 2004.

8. *Loan payable*

The loan of $10,000,000 from Quest Capital Corp. ("Quest") bears interest at 12% per annum, payable monthly and initially maturing on November 30, 2003. Repayment of the loan is to be made from all net cash flows after cash flows required for repayments under the bank loan. The loan is secured by a general security agreement subordinate to the bank loan.

In connection with this loan facility, the Company issued 1,500,000 common shares at a fair market value of $1 per share as a bonus payment to Quest. This amount has been included as interest expense in the current year.

On November 30, 2003, the Company secured an extension of this loan to February 29, 2004. In consideration of the extension, the Company issued 1,162,792 common shares, valued at $0.5382 per share, and paid $374,185 in cash to Quest. This amount has been included as interest expense. The Company received an additional extension for no further consideration to March 8, at which time the amount was repaid in full, including accrued interest (note 18).

9. *Asset retirement obligations*

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations associated with the retirement of P&NG properties.

$'s	2004	2003
		(restated - note 3)
Balance, beginning of year	**918,000**	–
Liabilities incurred	**1,443,700**	835,400
Accretion expense	**82,600**	82,600
Balance, end of year	**2,444,300**	918,000

Total estimated future asset retirement costs of $5,461,000 (2003 - $3,814,000) have been discounted using an average credit-adjusted risk-free rate of 7%. Most of these obligations are not expected to be paid for several years and will be funded from general company resources at the time of abandonment.

10. *Income taxes*

(a) Significant components of the future income tax liability at February 29, 2004 and February 28, 2003 include the following:

$'s	2004	2003
		(restated - note 3)
Carrying value of property, plant and equipment and asset retirement obligations in excess of available tax deductions	**7,268,751**	(764,322)
Deferred partnership income	**870,689**	–
Share issuance and financing costs	**(1,283,615)**	–
Asset retirement obligations	**(898,280)**	(386,662)
Non-capital loss carry forward	**(484,794)**	(484,794)
Valuation allowance	–	1,635,778
Other	**(1,751)**	–
	5,471,000	–

(b) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial 2004 income tax rates of 40.46% (2003 - 42.12%) to earnings (loss) before income taxes as follows:

$'s	2004	2003
		(restated - note 3)
Expected income tax provision expense(recovery)	**(696,947)**	79,389
Increase (decrease) resulting from:		
Non-deductible crown payments	**640,077**	171,463
Resource allowance	**(893,614)**	(112,257)
Alberta royalty tax credit	**(47,722)**	–
Impact of tax rate reductions	**299,949**	–
Stock-based compensation	**122,594**	–
Other	**(9,270)**	–
Future income tax recover not recognized	–	(138,595)
	(584,933)	–
Large corporations tax	**18,579**	–
Future income tax (recovery)	**(584,933)**	–
Provision for income taxes (recovery)	**(566,354)**	–

11. *Capital stock*

(a) Authorized

100,000,000 Common shares without par value

(b) Issued

	2004		2003	
	Number	Stated Value	Number	Stated Value
Balance, beginning of year	**5,076,302**	**$ 8,975,038**	3,649,187	$ 9,049,313
Shares issued on exercise of special warrants *(note 11 [d])*	**10,759,545**	**8,050,000**	–	–
Shares issued related to loan payable *(note 8)*	**2,662,792**	**2,125,815**	–	–
Shares issued on exercise of warrants *(note 11[c])*	**2,597,029**	**539,765**	405,000	101,250
Shares to be issued pursuant to private placement *(note 11[b])*	**970,000**	**485,000**	–	–
finders fee issued on business combination *(note 4)*	**250,000**	**250,000**	–	–
finders fee on purchase of petroleum and natural gas properties *(note 11[b])*	**200,000**	**116,000**	–	–
Shares issued on exercise of stock options *(note 12)*	**18,750**	**9,375**	–	–
Private placement *(note 11[b])*	**–**	**–**	1,000,000	110,000
Shares issued related to loan bonus to director *(note 11[b])*	**–**	**–**	22,115	11,500
	22,534,418	**20,550,993**	5,076,302	9,272,063
Less:				
Tax benefits renounced to subscribers		**1,346,153**		–
Share issuance costs (net of future income taxes of $380,556) (2003 $NIL)		**405,373**		297,025
Balance, end of year		**$18,799,467**		$ 8,975,038

(i) Included in share capital is the issue of 970,000 units for a cash consideration of $485,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exerciseable into one common share at $0.75 until March 5, 2005 and $1.00 until March 5, 2006.

(ii) During the year ended February 28, 2003, the Company acquired certain oil and natural gas properties in which the Company committed to issue 200,000 common shares valued at $0.58 per share as finders fees on the transaction. These shares were issued during the year ended February 29, 2004.

(iii) During the year ended February 28, 2003, the Company completed a private placement of 1,000,000 units at a price of $0.11 per unit, for gross proceeds of $110,000. Each Unit is exchangeable for one common share and one share purchase warrant which is exerciseable to purchase one additional share of the Company at the price of $0.14 per share in the first year and $0.18 in the second year from the date of issuance.

(iv) During the year ended February 28, 2003, 22,115 shares valued at $0.52 per share were issued to a director in consideration for loans made to the Company during the year.

(c) Warrants

A summary of the status of the Company's outstanding warrants as at February 29, 2004 and February 28, 2003 and changes during the years then ended are as follows:

	2004		2003	
Outstanding warrants	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	**3,195,000**	**$ 0.26**	2,230,000	$ 0.29
Issued	**7,466,010**	**0.94**	1,600,000	0.28
Exercised	**(2,597,029)**	**(0.21)**	(405,000)	(0.25)
Expired/cancelled	**–**	**–**	(230,000)	(0.60)
Outstanding and exerciseable, end of year	**8,063,981**	**$ 0.91**	3,195,000	$ 0.26

The following table summarizes information about the Company's outstanding and exerciseable warrants as at February 29, 2004:

	Outstanding and Exerciseable Warrants		
Exercise price	Number	Weighted Average Remaining Term	Weighted Average Exercise Price
		(years)	
\$0.50 – \$0.75	4,997,971	0.81	\$ 0.72
\$1.00 – \$1.25	3,066,010	0.33	1.21
Total	8,063,981	0.63	\$ 0.91

(d) Special warrants

(i) During the year, the Company closed a private placement for gross proceeds of \$6,000,000. The offering consisted of 2,596,545 non flow-through special warrants at a price of \$0.90 per non flow-through special warrant, and 3,663,000 flow-through special warrants at a price of \$1.00 per flow-through special warrant. Each non flow-through special warrant is exerciseable for one common share and one share purchase warrant at no additional cost. Each share purchase warrant is exerciseable for one common share of the Company at a price of \$1.25 for a period of twelve months. Each flow-through special warrant can be exercised to acquire one flow-through common share at no additional cost. The Company issued 6,259,545 common shares on exercise of these special warrants.

The Agent in respect of the offering was paid a commission of 7.0% of the gross proceeds, and share purchase warrants ("Broker Warrants") equal to 7.5% of the shares issued. Each Broker Warrant is exerciseable into one common share of the Company for a period of twelve months at a price of \$1.00.

Income tax deductions of \$3,663,000 were renounced to subscribers effective December 31, 2003 and the related estimated future tax cost of \$1,346,153 was recorded as a reduction of capital stock. Qualifying expenditures relating to the renunciation will be incurred in fiscal 2005.

(ii) During the year ended February 28, 2003, the Company issued 4,000,000 special warrants at a price of \$0.50 per special warrant. Each special warrant is exerciseable, at no additional cost, for one common share of the Company and one share purchase warrant to acquire one additional common share of the Company at a price of \$0.75 for a two-year period.

The Agent in respect of the offering was paid a commission of 7.5% of the gross proceeds and share purchase warrants equal to 15% of the shares issued. Each share purchase warrant is exerciseable for one common share of the Company for a period of two years and at a price of \$0.50. In addition, the Agent received a Corporate Finance Fee of 100,000 special warrants that will convert into 100,000 common shares of the Company and paid a finders fee of \$100,000 related to the transaction.

During the year ended February 29, 2004, the Company notified the special warrant holders that it would be unable to meet its deadline of April 23, 2003 to file a prospectus in respect of the special warrants. As a result under the terms of the special warrants, each special warrant holder was issued 1.1 common shares and 1.1 share purchase warrants on the exercise of each special warrant.

12. *Stock-based compensation*

Stock option plan

The Company has a stock option plan ("the Plan") whereby it may, from time to time, grant up to a total of 1,904,261 options to directors, officers, employees and consultants. All options granted under the Plan may not have an expiry date exceeding ten years from the grant date. The exercise price of the option cannot be less than the closing price on the TSX Venture Exchange on the day prior to the grant date. The Company shall not grant options to any one person which will, when exercised, exceed 5% of the issued and outstanding shares of the company. The stock options granted under the plan vest as to 25% upon regulatory approval and 12.5% every quarter thereafter.

A summary of the status of the Company's outstanding stock options as at February 29, 2004 and February 28, 2003 and changes during the years then ended are as follows:

	2004		2003	
Outstanding stock options	**Number of Options**	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of year	**525,000**	**$ 0.50**	130,000	$ 1.35
Granted	**1,315,000**	**0.67**	525,000	0.50
Exercised	**(18,750)**	**(0.50)**	–	–
Expired/cancelled	**(125,000)**	**(0.50)**	(130,000)	(0.50)
Outstanding, end of year	**1,696,250**	**$ 0.63**	525,000	$ 0.50
Exerciseable, end of year	**766,051**	**$ 0.67**	118,750	$ 0.50

The following table summarizes additional information about the Company's outstanding stock options as at February 29, 2004:

Options	**Outstanding Stock Options**			**Exerciseable**	**Stock**
Range of exercise prices	**Number**	**Weighted Average Remaining Term**	**Weighted 'Average Exercise Price**	**Number Exerciseable**	**Weighted Average Exercise Price**
		(years)			
$0.50 – $0.68	1,316,250	4.67	$ 0.50	544,238	$ 0.50
$1.03 – $1.10	380,000	4.34	1.07	221,813	1.07
Total	1,696,250	4.60	$ 0.63	766,051	$ 0.67

During the year, the Company granted 1,315,000 (2003 - 525,000) options at a weighted average price of $0.67 (2003 - $0.50). The aggregate fair value of these options was $580,550 (2003 - $0.28) under the Black-Scholes option pricing model as described below.

During the year, the Company issued 469,465 share purchase warrants (note 11[d]) at a price of $1.00. The aggregate fair value of these warrants was $190,000 under the Black-Scholes option pricing model as described below. The share issuance cost recognized of $190,000 has been credited to contributed surplus.

The fair value of each option and warrant granted is estimated on the grant date using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2004	**2003**
Fair value	**$0.46**	$0.28
Risk-free interest rate *(%)*	**3.6**	3.0
Expected hold period prior to exercise *(years)*	**5**	2
Expected volatility *(%)*	**70**	95
Dividend yield per share	**NIL**	NIL

Subsequent to year-end, the Company issued 550,000 stock options with a weighted average exercise price of $0.51 with a five-year term.

13. *Per share amounts*

Net earnings (loss) per share has been calculated based on the weighted average number of common shares outstanding during the year of 11,605,742 (2003 - 5,455,227).

A reconciliation of the denominators for the per share calculations using the treasury stock method is outlined below:

	2004	**2003**
Basic weighted average shares	**11,605,742**	5,455,227
Effect of dilutive options and warrants	**–**	991,577
Diluted weighted average shares	**11,605,742**	6,446,804

At February 29, 2004, there were 1,696,250 (2003 - 525,000) options outstanding with a weighted average exercise price of $0.63 (2003 - $0.50), and 8,063,981 (2003 - 600,000) warrants outstanding with a weighted average exercise price of $0.91 (2003 - $0.50) that have not been included in the calculation of diluted earnings per share as the effect would be anti-dilutive.

14. *Supplemental cash flow information*

$'s	2004	2003
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	**(328,490)**	(912,775)
Accounts payable and accrued liabilities	**1,196,485**	990,985
	867,995	78,210
Cash payments included in the consolidated statement of cash flows:		
Interest	**1,436,332**	51,410
Income taxes	**18,579**	–

Excluded from the consolidated statement of cash flows for the year ended February 29, 2004 is the acquisition and related obligation recorded for equipment under capital lease of $870,019.

15. *Commitments*

The minimum future annual lease commitments in respect of office rent are approximately $66,000 to the end of 2004, including occupancy costs.

16. *Related party transactions*

During the year ended February 29, 2004, the Company paid or accrued:

(i) consulting fees of $NIL (2003 - $17,500) to a company controlled by a director of the Company;

(ii) management fees of $123,500 (2003 - $28,500) to directors and a company controlled by a director of the Company;

(iii) consulting fees of $10,000 (2003 - $ 11,700) and rent of $180,585 (2003 - $60,000) to companies controlled by significant shareholders of the Company; and

(iv) share issue costs of $120,000 (2003 - $100,000) to a significant shareholder of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

17. *Financial instruments*

(a) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities, bank loan and loan payable approximate their carrying values due to their short-term maturity.

The fair value of the obligation under capital lease approximates its carrying value as the Company would be able to obtain similar debt terms at lending institutions.

(b) Credit risk

Substantially, all of the Company's accounts receivable are due from companies in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

(c) Hedging activities

The Company may from time to time enter into hedge transactions for natural gas sales. The contracts entered into are forward financial transactions providing the Company with a range of fixed prices. Net natural gas sales for the year-end February 29, 2004 include losses of $495,000 on these transactions. As at February 29, 2004, there are no hedge contracts outstanding.

18. *Subsequent event*

Subsequent to year-end, the Company closed two private placements. Under the first placement, the Company issued 14,240,000 units at $0.50 per unit for gross proceeds of $7,120,000. Finders' fees of $267,750 were paid in addition to the issuance of 584,450 common shares and 47,500 share purchase warrants as compensation to the agents.

The proceeds were used to extinguish the loan payable (note 8) and Quest was paid a finders' fee of 519,350 common shares issued from treasury.

The second private placement included the issuance of 6,850,000 flow-through common shares at $0.60 per share for gross proceeds of $4,110,000. The Agent received cash consideration of 6.5% of gross proceeds in addition to 445,250 share purchase warrants at $0.60 per share for a term of 15 months.

19. *Comparative figures*

Certain comparative figures have been reclassified to conform with the current year's presentation.

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